

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 07cv1651-L(WMC)

LEE MYLES ASSOCIATES CORP.,
Plaintiff,
v.
PAUL RUBKE ENTERPRISES, INC., *et*
al.,
Defendants.

ORDER

**(1) GRANTING IN PART AND
DENYING IN PART DEFENDANTS'
MOTION TO DISMISS; AND**

**(2) GRANTING IN PART AND
DENYING IN PART DEFENDANTS'
MOTION TO STRIKE**

In this breach of contract and trademark infringement action, Plaintiff Lee Myles Associates Corp. claims that Defendants Paul Rubke Enterprises, Inc., Paul S. Rubke and Rilla R. Rubke breached a license agreement with Plaintiff for an automobile transmission servicing franchise and infringed on Plaintiff's trademarks, among other things. The court has federal question jurisdiction over the claims for trademark infringement, unfair competition, and false description pursuant to 15 U.S.C. §§ 1114 and 1125. The court has supplemental jurisdiction over the remaining state law claims.

Defendants filed a motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6) and strike pursuant to Rule 12(f), which Plaintiff opposed. Plaintiff stipulated to dismissal of its claim for injury to business reputation. For the reasons which follow, Defendants' motions are granted in part and denied in part.

1 On April 19, 2003, Plaintiff entered into a License Agreement (“License”) with
2 Defendants to grant them the right to use Plaintiff’s registered marks, its system for transmission
3 servicing, repair and replacement, and a related business operations and marketing plan in
4 exchange for a license fee, royalties, and other payments for a fifteen-year term. (Compl. Ex. C
5 (License) at 1-3.) Plaintiff alleges Defendants failed to make the appropriate effort to
6 successfully operate their Lee Myles Center, in part because they failed to participate in
7 Plaintiff’s training programs. (Compl. ¶ 13.) In addition, Defendants failed to pay the
8 advertising fees as required under the License and therefore did not have sufficient advertising to
9 support their business. (*Id.* ¶ 14.) Defendants also refused to make other payments under the
10 License. (*Id.* ¶ 15.)

11 In March 2005, Defendants attempted to terminate the License by subleasing the
12 premises; however, Plaintiff objected to and prevented the sublease. (*Id.* ¶ 16.) Subsequently,
13 Defendants refused to report their gross sales and pay royalties as required by the License. (*Id.* ¶
14 17.) Defendants also began making disparaging and untrue statements about Plaintiff to several
15 of Plaintiff’s Area Development Representatives (“ADR”) and franchisees in other markets, and
16 caused Plaintiff to lose prospective contracts. (*Id.* ¶ 18.) Defendants continued to use Plaintiff’s
17 Lee Mayles marks to gain customers and advance their own transmission and auto care
18 business. (*Id.* ¶ 19.) On April 27, 2007, Defendants attempted to terminate the License without
19 good cause. (*Id.* ¶ 25.) The License requires a showing of good cause for a licensee to terminate
20 before the expiration of the 15-year term. (*Id.* Ex. C § 14.1.)

21 On July 6, 2007, Plaintiff filed a complaint in state court alleging causes of action for
22 breach of contract, misappropriation of trade secrets, defamation, intentional interference with
23 prospective economic advantage, fraud, trademark infringement, unfair competition under
24 California Unfair Competition Law and the Lanham Act, false description and injury to business
25 reputation. Plaintiff seeks damages, including liquidated and punitive damages, and injunctive
26 relief. (*Id.* at 20-23.) Defendants removed the case to this court and moved to dismiss all but the
27 breach of contract claim and to strike certain demands for relief.

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1 Initially, Defendants argue that statute of limitations has expired on claims for
2 misappropriation of trade secrets, defamation, fraud, and intentional interference with
3 prospective economic advantage. While California substantive law applies in this diversity case
4 to determine the elements of the legal claims alleged and the applicable statutes of limitations,
5 procedure is governed by federal law. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938). A Rule
6 12(b)(6) motion to dismiss tests the sufficiency of the complaint. *Navarro v. Block*, 250 F.3d
7 729, 732 (9th Cir. 2001). “While a complaint attacked by a Rule 12(b)(6) motion to dismiss
8 does not need detailed factual allegations, a plaintiff's obligation to provide the grounds of his
9 entitlement to relief requires more than labels and conclusions, and a formulaic recitation of the
10 elements of a cause of action will not do. Factual allegations must be enough to raise a right to
11 relief above the speculative level.” *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955, 1964-65
12 (2007) (internal quotation marks, brackets and citations omitted). In reviewing a motion to
13 dismiss under Rule 12(b)(6), the court must assume the truth of all factual allegations and must
14 construe them in the light most favorable to the nonmoving party. *Cahill v. Liberty Mut. Ins.*
15 *Co.*, 80 F.3d 336, 337-38 (9th Cir. 1996). Legal conclusions need not be taken as true merely
16 because they are cast in the form of factual allegations. *Roberts v. Corrothers*, 812 F.2d 1173,
17 1177 (9th Cir. 1987); *W. Mining Council v. Watt*, 643 F.2d 618, 624 (9th Cir. 1981). Similarly,
18 “conclusory allegations of law and unwarranted inferences are not sufficient to defeat a motion
19 to dismiss.” *Pareto v. Fed. Deposit Ins. Corp.*, 139 F.3d 696, 699 (9th Cir. 1998.)

20 “A motion to dismiss based on the running of the statute of limitations period may be
21 granted only ‘if the assertions of the complaint, read with the required liberality, would not
22 permit the plaintiff to prove the statute was tolled.’” *Supermail Cargo, Inc. v. United States*, 68
23 F.3d 1204, 1206-07 (9th Cir. 1995), quoting *Jablon v. Dean Witter & Co.*, 614 F.2d 677, 682
24 (9th Cir. 1980). The motion must be denied if the factual and legal issues are not sufficiently
25 clear to permit a determination with certainty whether the action was timely. *See Supermail*
26 *Cargo*, 68 F.3d at 1207.

27 Defendants argue that the statute of limitations for misappropriation of trade secrets has
28 expired. The parties agree that “[a]n action for misappropriation must be brought within three

1 years after the misappropriation is discovered or by the exercise of reasonable diligence should
2 have been discovered. . . .” Cal. Civ. Code § 3426.6. Defendants point to Paragraphs 13 and
3 21 of the Complaint (Reply at 1), which allege that “[f]rom the time of contracting [on or about
4 April 19, 2003], Defendants failed to make the appropriate effort to successfully operate the Lee
5 Myles Center [and] spent much of their time out of their Center running another family
6 business.” Defendants argue that these allegations demonstrate Plaintiff was on notice of and
7 therefore should have discovered, the alleged misappropriation from the date of the License.
8 Reading Paragraphs 13 and 21, as well as the Complaint in its entirety, in the light most
9 favorable to the nonmoving party, *Cahill*, 80 F.3d at 337-38, and without drawing any
10 unwarranted inferences, *Pareto*, 139 F.3d at 699, the court finds that Defendants’ interpretation
11 is without support. Based on the allegations, the time of Plaintiff’s discovery is unclear. The
12 untimeliness of the complaint must appear beyond doubt on the face of the complaint, before a
13 claim will be dismissed as time-barred. *See Supermail Cargo*, 68 F.3d at 1206-07. Accordingly,
14 to the extent Defendants seek dismissal of the misappropriation of trade secrets claim as time
15 barred, their motion is denied.

16 Defendants next contend that the defamation claim is time barred. The parties agree that
17 the applicable statute of limitations is one year pursuant to California Code Civil Procedure
18 Section 340(c). Defendants point to paragraphs 16 and 18, which state that Defendants
19 attempted to sublease their premises in March 2005 and started spreading untrue disparaging
20 representations about Plaintiff after that time. Defendants interpret the complaint to allege that
21 the disparagement commenced “directly after” March 2005. (Defs’ P&A at 5.) Nowhere in the
22 complaint does Plaintiff allege when the disparaging representations commenced. Reading the
23 Complaint in the light most favorable to the nonmoving party and without drawing any
24 unwarranted inferences, the court finds it alleges that the disparagement started at some point
25 after March 2005. To the extent Defendants contend that the defamation claim is untimely, their
26 motion to dismiss is denied.

27 Defendants also maintain that the statute of limitations for intentional interference with
28 prospective economic advantage has expired. They rely on Paragraph 47 of the Complaint

1 (Defs' P&A at 5-6; Reply at 1-2), which states that

2 after Plaintiff denied Defendants' attempt to sublease the licensed location,
3 Defendants . . . intentionally interfered with Plaintiff's prospective economic
4 relationships by making false, defamatory representations to Plaintiff's existing
and potential ADRs and franchisees.

5 Because the Complaint does not allege when the intentional interference occurred, the
6 untimeliness does not appear on its face, regardless of the length of the applicable statute of
7 limitations. Accordingly, to the extent Defendants contend the interference claim is untimely,
8 their motion to dismiss is denied.

9 Defendants next argue that the three-year statute of limitations bars the fraud claim. See
10 Cal. Code Civ. Proc. § 338(d). Defendants rely on Paragraphs 13 and 52 of the Complaint,
11 which allege:

12 From the time of contracting, Defendants, and each of them, failed to make the
13 appropriate effort to successfully operate the Lee Myles Center. . . . Defendants
spent much of their time out of their Center running another family business.

14 Defendants made representations of material fact to Plaintiff, in that Defendants
15 represented to Plaintiff that Defendants intended to contract with Plaintiff for the
purpose of gaining the right to own and operate a Lee Myles franchise.

16 Defendants argue that these facts put Plaintiff on notice at the time of contracting. (Defs' P&A
17 at 6.) The statute begins to run when the plaintiff discovered or by the use of reasonable
18 diligence could have discovered the fraud. Cal. Code Civ. Proc. § 338(d). The Complaint does
19 not allege when Plaintiff discovered the alleged fraud or when it could have discovered it. To
20 the extent Defendants contend the fraud claim is untimely, their motion to dismiss is denied.

21 Defendants next argue that the claims for trademark infringement, unfair competition
22 under California and federal law, and false description are all time barred. Defendants'
23 argument as to all these causes of action depends on their interpretation of Paragraph 62 of the
24 Complaint which alleges that

25 Following Plaintiff's rejection of Defendants' attempted sublease, Defendants
26 changed the name of the transmission service business at the licensed location
from "Lee Myles" to Paul's Transmissions. Defendants also refused and failed to
27 provide Plaintiff with Defendants' gross sales numbers and refused and failed to
pay Plaintiff royalties as Plaintiff's franchisee.

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1 Defendants argue that this paragraph shows the infringement commenced on or about March
2 2005, when Plaintiff rejected their attempted sublease. (Defs' P&A at 11-12.) As previously
3 discussed, this interpretation of the Complaint is not warranted. Accordingly, to the extent
4 Defendants contend the trademark infringement, unfair competition under California and federal
5 law, and false description claims are untimely, their motion to dismiss is denied.

6 Defendants also argue that several claims should be dismissed for failure to state a claim.
7 Dismissal is warranted under Rule 12(b)(6) where the complaint lacks a cognizable legal theory.
8 *Robertson v. Dean Witter Reynolds, Inc.*, 749 F.2d 530, 534 (9th Cir. 1984); *see Neitzke v.*
9 *Williams*, 490 U.S. 319, 326 (1989) ("Rule 12(b)(6) authorizes a court to dismiss a claim on the
10 basis of a dispositive issue of law"). Alternatively, a complaint may be dismissed where it
11 presents a cognizable legal theory yet fails to plead essential facts under that theory. *Robertson*,
12 749 F.2d at 534.

13 With respect to the defamation claim, Defendants complain that Plaintiff did not
14 specifically allege the actual defamatory statements, did not allege what losses it suffered and
15 how they were caused, did not allege damages with particularity and failed to allege good
16 business reputation as required by California law. (Defs' P&A at 6-8.)

17 While California substantive law applies in this diversity case, procedure is governed by
18 federal law. *Erie R.R. Co.*, 304 U.S. 64. There is no doubt that California law determines the
19 elements of the cause of action. *Id.* The same is not true of the requirements to plead the cause
20 of action so as to avoid dismissal for failure to state a claim. Where an issue is directly covered
21 by the Federal Rules of Civil Procedure, federal law controls. It is immaterial that the claim
22 sued upon arises under state law and a different result would have been reached in a state court
23 action. *Hanna v. Plumer*, 380 U.S. 460 (1965); *Vess v. Ciba-Geigy Corp. USA*, 317 F.3d 1097,
24 1102 (9th Cir. 2003). Manner of pleading and dismissal for failure to state a claim are directly
25 covered by Rules 8 and 12(b)(6). Rule 8(a)(2) requires a short and plain statement of the claim
26 for relief necessary to provide Defendants with fair notice so as to enable them to respond.

27 Under California law, defamation is an invasion of the interest in reputation. 5 B.E.
28 Witkin, Summary of Cal. Law § 529 (10th ed. 2005). The elements of defamation are "(a) a

publication that is (b) false, (c) defamatory, and (d) unprivileged, and that (e) has a natural tendency to injure or that causes special damage.” *Id.*

Plaintiff alleged

Defendants made false, mean-spirited and vile representations to several Plaintiff’s ADRs and franchisees regarding Plaintiff’s business practices . . . [¶] . . . with the intent to cause injury to Plaintiff’s contractual relationships and overall business reputation. [¶] These representations were untrue, and were understood by those who heard them in a manner which defamed Plaintiff. . . . Defendants[‘] false, mean-spirited and vile representations have caused other ADRs and franchisees to question their contractual relationships with Plaintiff. [¶] Defendants . . made such false representations to prospective ADRs and franchisees which caused the loss of several prospective contracts with such potential ADRs and franchisees. [¶] As a legal result of Defendants’ defamatory representations, Plaintiff has suffered severe damage to its reputation and to its relations with its existing and potential ADRs and franchisees. . . .

(Compl. ¶¶ 38-42.) The Complaint sufficiently alleges the elements of defamation under the liberal pleading requirements of Rule 8.

Defendants argue Plaintiff did not sufficiently allege the cause of action for intentional interference with prospective economic advantage because it failed to allege independently wrongful conduct, existence of an economic relationship with a third party with the probability of future economic benefit, and for failure to specifically identify the profitable contracts Plaintiff alleged to have lost.

The elements of intentional interference with prospective economic advantage are:

(1) an economic relationship between the plaintiff and some third party, with the probability of future economic benefit to the plaintiff; (2) the defendant’s knowledge of the relationship; (3) intentional acts on the part of the defendant designed to disrupt the relationship; (4) actual disruption of the relationship; and (5) economic harm to the plaintiff proximately caused by the acts of the defendant.

Youst v. Longo, 43 Cal.3d 64, 71 n.6 (1987). In addition, the plaintiff must plead “that the defendant . . . engaged in conduct that was wrongful by some legal measure other than the fact of interference itself.” *Della Penna v. Toyota Motor Sales, U.S.A., Inc.*, 11 Cal.4th 376, 393 (1995); *see also* 5 Witkin, Summary of Cal. Law § 742.

Plaintiff alleges

A prospective economic advantage existed between Plaintiff and several of Plaintiff’s ADRs, franchisees, and prospective ADRs and franchisees in that Plaintiff was likely to enter into contracts with such persons to the economic

1 advantage of Plaintiff. [¶] . . . Defendants . . . knew of the existence of Plaintiff's
 2 prospective economic relationships with its ADRs, franchisees and potential ADRs
 3 and franchisees, because Defendants' status as an ADR and franchisee made
 4 Defendants aware of other existing and potential ADRs and franchisees with
 5 which Plaintiff had prospective economic relationships. [¶] . . . Defendants . . .
 6 intentionally interfered with Plaintiff's prospective economic relationships by
 7 making false, defamatory representations to Plaintiff's existing and potential
 8 ADRs and franchisees. [¶] . . . [S]uch representations were designed to interfere
 9 with and disrupt the economic relationship between Plaintiff and its existing and
 10 potential ADRs and franchisees. [¶] As a direct, foreseeable and legal result of
 11 Defendants' interference, Plaintiff has lost out on profitable contracts with
 12 existing and potential ADRs and franchisees. . . .

13 (Compl. ¶¶ 45-49.)

14 The allegation of "prospective economic relationships" with prospective ADRs and
 15 franchisees does not support a claim for intentional interference with prospective economic
 16 advantage. This cause of action "protects the expectation the relationship will produce the
 17 desired benefit, not 'the more speculative expectation that a potentially beneficial relationship
 18 will arise.'" *Sole Energy Co. v. Petrominerals Corp.*, 128 Cal. App. 4th 212, 243 (2005),
 19 quoting *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal.4th 1134, 1164 (2003). However,
 20 because the Complaint also alleges existing economic relationships, it is sufficient to state a
 21 claim. The element of independently wrongful conduct is satisfied because the claim is based on
 22 defamation, a tort independent of the alleged interference. Defendants' remaining arguments run
 23 afoul of the liberal pleading requirements of Rule 8. Accordingly, Defendants' motion to
 24 dismiss the claim for intentional interference with prospective economic advantage is denied.

25 Defendants next argue that Plaintiff did not sufficiently allege trademark infringement.
 26 They contend that the complaint alleges that third parties over whom they have no control, and
 27 not Defendants themselves, infringed Plaintiff's trademarks.

28 The elements of trademark infringement are: (1) plaintiff's ownership of a valid,
 protectable trademark; (2) defendant's use of the same or similar symbol without plaintiff's
 consent in a manner that is likely to cause confusion among ordinary purchasers as the source of
 the goods or services; and (3) plaintiff was damaged by defendant's infringement. *See* 9th Cir.
 Model Jury Instr. 15.5 & Cmt.

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1 Plaintiff alleges trademark infringement under 15 U.S.C. § 1114. (Compl. ¶ 65.) Section
 2 1114 provides protection only of registered marks. *Brookfield Commc'n, Inc. v. W. Coast*
 3 *Entm't Corp.*, 174 F.3d 1036, 1047 n.8 (9th Cir. 1999). Plaintiff has registered service marks for
 4 Lee Myles Transmissions and Lee Myles Transmissions & Autocare and related symbols.
 5 (Compl. ¶ 10.) Plaintiff then licensed the use of these marks to Defendants, but Defendants
 6 allegedly breached the License. (*Id.* ¶¶ 11-18 & License ¶ 1.1.) Specifically, Plaintiff alleges
 7 that

8 Since the business relationship between Defendants and Plaintiff deteriorated,
 9 Defendants have continued to use Plaintiff's name, logo and trademark to facilitate
 10 their own separate transmission and auto care service business. For example,
 11 Defendants have used and are using the advertised Lee Myles telephone number
 and the Lee Myles Autocare and Lee Myles Transmissions and Autocare links
 found on www.superpages.com to gain customers for Defendants' transmission
 service business, Paul's Transmissions.

12 (*Id.* ¶ 19; *see also id.* ¶¶ 62-65.) "When a potential customer calls the Lee Myles telephone
 13 number or clicks the Lee Myles internet link in the licensed area, the customer is actually
 14 contacting Defendants' Paul's Transmissions rather than a licensed Lee Myles Center." (*Id.*
 15 ¶ 63.) Plaintiff further alleges that

16 Defendants' use of the Lee Myles name and trademark for the purpose of
 17 obtaining customers comprises an infringement of the Lee Myles trademark and is
 18 likely to cause confusion, mistake and deception of the public as the identity of
 Defendant's [*sic*] transmission service business, causing irreparable harm to
 Plaintiff . . .

19 (*Id.* ¶ 64.)

20 Plaintiff specifically alleges Defendants' unauthorized use of the phone number and links
 21 on a third-party website. Although the court notes, without deciding, that Defendants' continued
 22 use of the telephone number may constitute breach of contract, it does not constitute trademark
 23 infringement. The telephone number is not Plaintiff's registered mark. Furthermore, Plaintiff
 24 does not allege that Defendants exercise any amount of control over the superpages website. To
 25 the extent the trademark infringement claim is based on the telephone number and third-party
 26 website, it lacks a cognizable legal theory. However, Plaintiff also alleges Defendants' use of
 27 Plaintiff's registered marks, which is sufficient to support the infringement claim.

28 /////

1 With regard to infringement of its registered marks, Plaintiff does not expressly allege
 2 Defendants' use was without consent. The court looks to the License, attached to the Complaint,
 3 to determine the scope of Plaintiff's consent to Defendants' use. During the term of the License,

4 Licensee shall use the Marks only in connection with the operation of the Center
 5 pursuant to the System and the sale of the services and products licensed hereby,
 6 and only in the manner specified in this Agreement or the Operations Manual.
 7 Licensee's Center shall be operated under the Marks and under no other name or
 8 mark. Licensee shall not use the Marks in connection with any services or
 9 products not specifically authorized by Licensors in writing. . . .

10 (License ¶ 5.2.) Upon termination,

11 Licensee's right to use the Marks . . . shall cease and the following, as well as any
 12 other provisions of this Agreement relating to termination, shall apply:

13 . . .
 14 b. Licensee shall immediately and permanently discontinue the use of the
 15 Marks . . .

16 (License ¶ 14.5.) Based on the foregoing provisions, regardless of whether Defendants' alleged
 17 infringement occurred before or after termination, Plaintiff's consent did not extend to
 18 Defendants' use of the registered marks "to facilitate their own separate transmission and auto
 19 care service business," as alleged in the Complaint. Plaintiff therefore sufficiently alleged
 20 infringement of its registered marks. Defendants' motion to dismiss is denied in this regard.

21 Based on the same arguments, Defendants argue Plaintiff's claims for unfair competition
 22 and false description under 15 U.S.C. § 1125(a) and for unfair competition under California law
 23 should also be dismissed. Plaintiff incorporates into these claims all the allegations made in its
 24 section 1114 claim. (Compl. ¶¶ 66, 72, 75.) The California unfair competition claim is based on
 25 the section 1114 trademark infringement claim. (*See id.* ¶¶ 67-71.) As to the federal unfair
 26 competition claim, Plaintiff alleges in pertinent part:

27 Defendants' use of the Lee Myles registered marks to promote, market or sell its
 28 services in direct competition with Plaintiff's franchise constitutes Unfair
 Competition pursuant to 15 U.S.C. § 1125(a). [¶] Defendants' use of the Lee
 Myles registered marks is likely to cause confusion, mistake and deception among
 consumers. . . .

(*Id.* ¶¶ 73, 74.) As to the false description claim, Plaintiff alleged:

Defendants' use of the Lee Myles name and trademark for the purpose of selling
 its services at Paul's Transmissions is likely to cause confusion, or to cause

1 mistake, or to deceive consumers as to the affiliation, connection or associate [*sic*]
 2 of Plaintiff's services, or to deceive consumers as to the origin, sponsorship or
 approval of Defendants' services.

3 (*Id.* ¶ 76.) To the extent these claims are based on allegations of the content of a third-party
 4 website and Defendants' use of a phone number, they do not support any of the claims. To the
 5 extent they are based on Plaintiff's more general allegation that Defendants used Plaintiff's
 6 marks "to facilitate their own separate transmission and auto care service business," they survive
 7 Defendants' motion to dismiss.

8 Defendants contend Plaintiff does not allege fraud with sufficient specificity. Plaintiff's
 9 reliance in its opposition on California state law for the pleading specificity requirements is in
 10 error. "It is established law . . . that Rule 9(b)'s particularity requirement applies to state-law
 11 causes of action." *Vess*, 317 F.3d at 1103. To comply with rule 9(b), "the circumstances
 12 constituting fraud . . . shall be stated with particularity." "A pleading is sufficient under rule
 13 9(b) if it identifies the circumstances constituting fraud so that a defendant can prepare an
 14 adequate answer from the allegations." *Moore v. Kayport Package Express, Inc.*, 885 F.2d 531,
 15 540 (9th Cir. 1989). In this regard, it is sufficient to plead items such as the time, place and
 16 nature of the alleged fraudulent activities. *Id.* The particularity pleading requirement does not
 17 apply to reasonable reliance or other elements of fraud. *See* Fed. R. Civ. P. 9(b) ("condition of
 18 mind of a person may be averred generally"); William W. Schwarzer *et al.*, *Fed. Civ. P. Before*
 19 *Trial* ¶8:44.1 (2007).

20 Defendants argue the complaint does not state what Defendants' specific representations
 21 were, who made them, and how or they were made. Generally, Rule 9(b) requires a plaintiff to
 22 attribute particular fraudulent statements or acts to individual defendants. *Moore*, 885 F.2d at
 23 540. However,

24 the rule may be relaxed as to matters within the opposing party's knowledge. For
 25 example, in cases of corporate fraud, plaintiffs will not have personal knowledge
 26 of all the underlying facts. . . . Instances of corporate fraud may also make it
 27 difficult to attribute particular fraudulent conduct to each defendant as an
 28 individual. To overcome such difficulties in cases of corporate fraud, the
 allegations should include the misrepresentations themselves with particularity
 and, where possible, the roles of the individual defendants in the
 misrepresentations.

1 *Id.* Defendants agree that this is a case of alleged corporate fraud. (Reply at 6.)

2 In pertinent part, Plaintiff alleges:

3 Defendants . . . represented to Plaintiff that Defendants intended to contract with
 4 Plaintiff for the purpose of gaining the right to own and operate a Lee Myles
 franchise. [¶] . . . [T]he representations made by Defendants were false and
 5 known by Defendants to be false at the time, in that Defendants intended to
 contract with Plaintiff only for the purpose of obtaining Plaintiff's knowledge,
 6 experience and expertise in the operation of a transmission services business.
 Moreover, Defendants intended to end the contractual relationship with Plaintiff
 7 once they were provided with the necessary training, information, technology and
 supplies to operate a transmission service business on their own.

8 (Compl. ¶¶ 52, 53.) The court finds the fraudulent statement and the circumstances under which
 9 it was made are sufficiently alleged under Rule 9(b); however, Plaintiff should identify the
 10 individual or individuals making the statement by alleging, where possible, the roles of the
 11 individual defendants in the misrepresentation. Accordingly, Defendants' motion to dismiss is
 12 granted with leave to amend.

13 Defendants also move to strike Plaintiff's demand for punitive damages to the extent it is
 14 based on the allegations of fraud. Because Plaintiff's motion to dismiss the fraud claim is
 15 granted with leave to amend, the motion to strike punitive damages is denied as premature,
 16 without prejudice to renewing it in response to the first amended complaint.

17 Defendants next move to strike pursuant to Rule 12(f) Plaintiff's demands for liquidated
 18 damages and restitution of profits. Pursuant to Rule 12(f), "the court may order stricken from
 19 any pleading any insufficient defense or any redundant, immaterial, impertinent, or scandalous
 20 matter." A motion to strike may be used to strike any part of the prayer for relief when the
 21 damages sought are not recoverable as a matter of law." *Bureerong v. Uvawas*, 922 F. Supp.
 22 1450, 1479 n.34 (C.D. Cal. 1996).

23 Defendants challenge Plaintiff's demand for restitution of profits on its unfair competition
 24 claim under California Unfair Competition Law ("UCL"). Specifically, Plaintiff demands
 25 "restitutionary damages representing the amount Defendants have been unjustly enriched
 26 through Defendants' unauthorized use of Plaintiff's name and trademark" (Compl. at 22.)
 27 The remedies available to individual plaintiffs for unfair competition are limited to restitution
 28 and injunctive relief. *Cel-Tech Cmmc'n*, 20 Cal.4th 163, 179 (1999); *Madrid v. Perot Sys.*

1 *Corp.*, 130 Cal. App. 4th 440, 452 (2005), citing Cal. Bus. & Prof. Code §§ 17203, 17206. “The
 2 concept of restoration or restitution, as used in the UCL, is not limited only to the return of
 3 money or property that was once in the possession of that person. Instead, restitution is broad
 4 enough to allow a plaintiff to recover money or property in which he or she has a vested
 5 interest.” *Korea Supply Co.*, 29 Cal.4th at 1149 (internal quotation marks and citation omitted);
 6 *Juarez v. Arcadia Fin., Ltd.*, 152 Cal. App. 4th 889, 914-18 (2007) and cases discussed therein.
 7 Disgorgement of profits earned by defendants as a result of allegedly unfair practices, where the
 8 money sought to be disgorged was not taken from the plaintiff and the plaintiff did not have an
 9 ownership interest in the money, is not authorized by the UCL. *Korea Supply Co.*, 29 Cal.4th at
 10 1143-53.

11 The Complaint does not allege that Plaintiff seeks the return of any money or other
 12 property Defendants obtained from Plaintiff or in which Plaintiff had a vested interest. It alleges
 13 that Defendants unjustly earned money from their customers by unlawfully using Plaintiff’s
 14 marks. Accordingly, Defendants’ motion to strike Plaintiff’s demand for “restitutionary
 15 damages” for unfair competition under the UCL (Compl. at 22) is granted.

16 Defendants also challenge Plaintiff’s demand for liquidated damages. Plaintiff demands
 17 liquidated damages for breach of contract under Paragraph 14.7 of the License. (Compl. ¶ 27, p.
 18 20, License ¶ 14.7; Opp’n to Mtn to Strike at 4-5.) Defendants point to the language of the
 19 License, which provides that “in the event this Agreement is terminated prior to its expiration by
 20 Licensor for cause, Licensor shall be entitled to recover from Licensee [liquidated damages].”
 21 (License ¶ 14.7.) Accordingly, the liquidated damages provision applies when Plaintiff
 22 terminates the License with Defendants for cause. Under the terms of the License, Plaintiff must
 23 give written notice to terminate for cause. (License ¶¶ 14.2 - 14.5.) The Complaint does not
 24 allege Plaintiff terminated the License or that it demands termination of the License in this
 25 action. Defendants’ motion to strike is therefore granted with respect to the demand for
 26 liquidated damages, and Plaintiff is granted leave to amend.

27 /////

28 /////

For the foregoing reasons, **IT IS HEREBY ORDERED** as follows:

1. Defendants' motion to dismiss is **GRANTED** with respect to the fifth cause of action for fraud and **DENIED** in all other respects.

2. Defendants' motion to strike is **GRANTED** to the extent:

a. Plaintiff's demand "[f]or restitutionary damages representing the amount Defendants have been unjustly enriched through Defendants' unauthorized use of Plaintiff's name and trademark in an amount to be proven at trial" to the extent it relates to the seventh cause of action for unfair competition under Business and Professions Code § 17200 *et seq.* only is stricken. Specifically, the court strikes from the Complaint lines 8 and 9 from Paragraph 70.


b. Plaintiff's demand "[f]or damages calculated according to the liquidated damages provision of the license agreement" with respect to the first cause of action for breach of contract is stricken. Specifically, the court strikes Paragraph 27, with the exception of the first sentence, and Item 1 of the Prayer for Relief as to the First Cause of Action.

c. In all other respects, Defendants' motion to strike is **DENIED**.

3. Plaintiff is **GRANTED LEAVE TO AMEND**. An amended complaint must be filed and served no later than **March 28, 2008**.

IT IS SO ORDERED.

DATED: March 11, 2008


M. James Lorenz
United States District Court Judge

COPY TO:

HON. WILLIAM McCURINE, JR.
UNITED STATES MAGISTRATE JUDGE

ALL PARTIES/COUNSEL